Controls Over Houston Receipts Left Taxpayer Cash Payments Vulnerable to Embezzlement

August 2001

Reference Number: 2001-40-149

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 31, 2001

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION
COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

Pamela J Gardiner

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Controls Over Houston Receipts Left Taxpayer Cash Payments Vulnerable to Embezzlement

This report presents the results of our review to determine if Houston Taxpayer Assistance Center employees gave taxpayers Internal Revenue Service (IRS)-approved receipts for non-cash payments when required and if proper accountability had been established for preparing and reviewing official receipts.

In summary, we found that Houston Taxpayer Assistance Center employees issued receipts for non-cash payments (checks and money orders) that did not meet IRS guidelines. In addition, 25 percent of the official receipts we reviewed that were prepared by Houston Territory Collection employees had errors of the types that could indicate potential employee embezzlement of taxpayer cash payments, accountability problems, or security problems. However, reviews by Austin employees did not identify 97 percent of the errors.

We recommended Houston Territory management ensure that employees provide only IRS-approved receipts for non-cash payments. The Austin Campus and National Headquarters management should conduct periodic oversight reviews to help ensure IRS procedures for reviewing official receipts, identifying receipt errors, and issuing error notices are followed. The IRS should also revise its procedures to include additional official receipt errors and to provide better explanations of some errors.

IRS management agreed with our recommendations and will initiate corrective actions. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or M. Susan Boehmer, Acting Assistant Inspector General for Audit (Wage and Investment Income Programs), at (770) 936-4590.

Attachments (2)

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Executive Summary

The law[1] requires that the Internal Revenue Service (IRS) provide a receipt when requested by the taxpayer for any payment made. While the law does not specify the form of the required receipts, IRS guidelines allow two types of receipts:

- An official receipt, Receipt for Payment of Taxes (Form 809), that must be issued for cash payments. It may also be issued for non-cash payments (checks and money orders).
- A photocopy of the taxpayer's non-cash payment stamped with the words "Proof of Delivery Only—This Is Not an Official Receipt."

To help prevent employee embezzlement of taxpayer payments, the IRS limits the types of receipts allowed and has numerous controls over official receipts.

Our objectives were to determine if Houston Taxpayer Assistance Center employees gave taxpayers IRS-approved receipts for non-cash payments when required and if proper accountability had been established for preparing and reviewing official receipts. This included determining the types of receipts issued for non-cash payments and evaluating the Austin Campus controls over the issued official receipts. The Austin Campus provides official receipts to Houston Territory employees and reviews the issued official receipts for errors.

Results

The implementation of the receipt process for Houston and Austin increased the risk for employee embezzlement of taxpayer cash payments. While we did not find indications of employee embezzlement of payments, our review identified the following situations that adversely affected the IRS' ability to protect taxpayer payments.

Houston Taxpayer Assistance Center Employees Issued Receipts for Non-Cash Payments That Did Not Meet Internal Revenue Service Guidelines

The Houston Taxpayer Assistance Center employees issued receipts for non-cash tax payments as required by law. However, the receipts did not meet IRS guidelines. Photocopies of checks and money orders were stamped with IRS "Received With

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[1] Internal Revenue Code, 26 U.S.C. Section 6314.

Remittance" stamps, rather than the approved "Proof of Delivery" stamps. Also, documents other than photocopies of the remittances were stamped and given as receipts, contrary to IRS guidelines.

When receipts that do not meet guidelines are routinely used, even for non-cash payments, we believe an atmosphere is created that increases the chance for embezzlement of taxpayer cash payments.

The Preparation and Review of Official Receipts Left Taxpayer Cash Payments Vulnerable to Embezzlement

The process for preparing and reviewing official receipts was not properly implemented in Houston and Austin. Houston Territory Collection employees did not always properly prepare the official receipts, and Austin Campus employees seldom identified receipt errors to inform managers of potential high-risk situations. Houston employees made errors in preparing 25 percent of the official receipts we reviewed, but Austin Campus employees did not identify 97 percent of these errors.

Proper reviews of official receipts are necessary to help the IRS prevent and detect embezzlement of taxpayer cash payments. However, the Austin reviews were not sufficient to help prevent or detect embezzlement.

Summary of Recommendations

Houston Territory management should ensure that employees provide only IRS-approved receipts for non-cash payments. The Austin Campus and National Headquarters management should conduct periodic oversight reviews to help ensure IRS procedures for reviewing official receipts, identifying receipt errors, and issuing error notices are followed. The IRS should also revise its procedures to include additional official receipt errors and to provide better explanations of some errors.

Management's Response: Houston Territory management ordered and received "Proof of Delivery" stamps for all Taxpayer Assistance Centers. The IRS took action to protect payments from embezzlement, which included training on critical errors, losses and shortages, fraud detection, and manual guidelines, as well as development and distribution of a *Submission Processing Field Office Payment Processing Program Review Guide*. This guide includes the requirement that a designee of the campus Field Director conduct program reviews at least annually. Additionally, the IRS conducted and scheduled Field Office Payment Processing Program oversight reviews of each campus. The IRS also issued procedural changes and improvements to the Internal Revenue Manual and developed a formal training curriculum for Remittance Perfection technicians.

Objectives and Scope

Our objectives were to determine if the IRS was providing proper receipts for non-cash payments and to determine if proper accountability for official receipts was established.

This review was conducted based on an allegation by an Internal Revenue Service (IRS) employee that Houston Taxpayer Assistance Center[1] (TAC) employees issued receipts that did not meet IRS guidelines. Our objectives were to determine if Houston TAC employees gave taxpayers IRS-approved receipts for non-cash payments (checks and money orders) when required and if proper accountability had been established for preparing and reviewing official receipts (Receipt for Payment of Taxes (Form 809)).

To accomplish these objectives, we:

- Determined the Houston Territory TAC practice for issuing receipts for non-cash payments.
- Determined if controls over issued official receipts were adequate to identify potential embezzlement of cash payments. The Austin Campus[2] assumed responsibility for these controls for the Houston Territories in mid-October 1999. We reviewed all 1,425 Houston official receipts issued from that date to mid-October 2000.

This audit was conducted in the Houston Territories and at the Austin Campus from December 2000 to January 2001 in accordance with *Government Auditing Standards*. Details of our audit objectives, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

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[1] IRS sites that provide taxpayers with face-to-face service, formerly referred to as “Walk-in” sites.

[2] The Austin Campus was formerly referred to as the Austin Service Center.

Background

The law requires the IRS to give taxpayers receipts upon request.

The law[3] requires that the IRS provide a receipt when requested by the taxpayer for any payment made. While the law does not specify the form of the required receipts, IRS guidelines allow two types of receipts:

- An official receipt, Receipt for Payment of Taxes (Form 809). This receipt must be issued for cash payments and may also be issued for non-cash payments. At the time of our review, approximately 100 Houston Territory Collection employees were authorized to issue official receipts.
- A date-stamped photocopy of the non-cash payments. The stamp should read “Proof of Delivery Only—This Is Not an Official Receipt.” This receipt allows the IRS to provide taxpayers with proof that their non-cash payments have been submitted to the IRS, without the strict controls required for official receipts. The IRS revised its national guidelines on October 1, 2000, allowing employees to use this stamp.

The IRS limits the types of receipts allowed to help prevent employee embezzlement of taxpayer payments. The IRS also has numerous controls over official receipts to help prevent embezzlement. These controls include a process for preparing the official receipts and for identifying and reporting receipt preparation errors such as receipts issued out of sequence (including missing receipts); late cash conversion; missing cash conversion information; alterations, markovers, erasures, or carbon inconsistencies.

[3] Internal Revenue Code, 26 U.S.C. Section 6314.

Results

The implementation of the receipt process left taxpayer cash payments vulnerable to embezzlement.

The implementation of the receipt process by Houston and Austin increased the risk for employee embezzlement of taxpayer cash payments. While we did not find employee embezzlement of payments, our review identified the following situations that adversely affected the IRS' ability to protect taxpayer payments:

- Houston TAC employees issued receipts for non-cash payments that did not meet IRS guidelines.
- The preparation and review of official receipts left taxpayer cash payments vulnerable to embezzlement. Houston Territory employees prepared 25 percent of the receipts incorrectly, but Austin Campus employees did not identify 97 percent of these errors.

The chance for embezzlement of taxpayer cash payments is increased when receipts are issued that do not meet guidelines and when controls over official receipts do not effectively identify and address receipt problems.

Houston Taxpayer Assistance Center Employees Issued Receipts for Non-Cash Payments That Did Not Meet Internal Revenue Service Guidelines

Receipts issued for non-cash payments did not meet IRS guidelines.

When taxpayers requested receipts for non-cash payments, Houston Taxpayer Assistance employees provided receipts as required by law. However, the receipts did not meet IRS guidelines.

The receipts issued by Houston Taxpayer Assistance employees did not meet IRS guidelines because:

- Photocopies of checks and money orders were stamped with IRS "Received With Remittance" stamps, rather than the approved "Proof of Delivery" stamps.

- Documents other than photocopies of the remittances were stamped “Received With Remittance” and given as receipts, contrary to IRS guidelines. These documents included copies of internal payment processing documents (which are specifically prohibited as receipts by the guidelines), check stubs, and copies of IRS notices to taxpayers.

Issuing receipts not meeting IRS guidelines was a long-standing practice.

Issuing receipts not meeting IRS guidelines was a long-standing practice. Houston Territory Taxpayer Assistance management believed this allowed employees to serve taxpayers efficiently while meeting taxpayers’ needs, in part because their employees did not have official receipts. Additionally, Houston employees and managers were generally not aware of the “Proof of Delivery” stamp and did not have this stamp at the time of our review.

Using non-standard receipts increases the chance for embezzlement.

When receipts that do not meet guidelines are routinely used, even for non-cash payments, we believe an atmosphere is created that increases the chance for embezzlement of taxpayer cash payments. Issuing non-standard receipts for any type of payment may tempt employees to issue non-standard receipts for cash and keep the money. An example is included in a 1996 IRS Internal Audit report.[4] That report mentioned an apparent embezzlement where an IRS employee received cash from taxpayers but gave taxpayers internal payment processing documents as receipts rather than official receipts.

Recommendation

1. Houston Territory management should ensure that employees provide only IRS-approved receipts for non-cash payments. This should include providing TAC employees with “Proof of Delivery” stamps.

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[4] *Review of Cash Remittance Processing Controls at the Kansas City Service Center* (Reference Number 370304, dated November 22, 1996).

Management's Response: The IRS stated that, "Houston Territory management ordered and received "Proof of Delivery" stamps for all TACs. In addition, the Director, Field Assistance, directed all Field Assistance offices on March 1, 2001, to immediately correct the situation and secure the required stamps. We ordered the required stamps and all offices received them by April 30, 2001."

The Preparation and Review of Official Receipts Left Taxpayer Cash Payments Vulnerable to Embezzlement

The process for preparing and reviewing official receipts includes the following:

- Each authorized employee is assigned a book of sequentially numbered receipts that reflect information needed to process the related payments. Employees are required to properly complete the necessary items on the receipt, issue the receipts in sequential order, and convert any cash received to a money order within 1 workday.

Campus employees review official receipts to identify, report, and correct errors.

- Official receipts and the related payments are sent to the applicable campus where employees review the receipts to identify, report, and correct errors. When campus employees identify certain errors, they should send an error notice[5] to the manager of the employee who issued the receipt. The error notice informs the manager of the error and may require a response to correct the problem.
- Campus employees should prepare monthly reports to summarize the errors found. These reports allow Territory management to identify problem trends and take appropriate corrective action.

[5] Teller's Error Advice (Form 5919).

Although 25 percent of the receipts had errors, 97 percent of the errors were not identified.

The process for preparing and reviewing official receipts was not properly implemented in Houston and Austin. Houston Territory Collection employees did not always properly prepare the official receipts, and Austin Campus Collection employees seldom identified receipt errors to inform managers of potential high-risk situations. The Houston employees made errors in preparing 25 percent of the official receipts we reviewed, but the Austin Campus employees did not identify 97 percent of the errors.

We reviewed all 1,425 official receipts prepared by Houston employees between October 1999 and October 2000 and submitted to Austin. We identified 376 errors on 354 receipts (25 percent) that could indicate potential employee embezzlement of taxpayer cash payments, accountability problems, or security problems. Austin Campus employees did not issue error notices on 365 (97 percent) of the 376 errors. See Appendix V for details.

The high error rate in receipt preparation occurred, in part, because Austin Campus employees did not identify 97 percent of the errors. Houston managers were not informed of receipt problems through error notices or monthly error trend reports and were not aware of the need for corrective actions. Austin employees did not effectively identify errors because:

Oversight reviews had not been performed.

- In October 1999, the Austin Campus assumed the responsibility for reviewing official receipts for the Houston Territory, identifying receipt errors, and sending error notices. However, at the time of our review, Austin and National Headquarters management had not performed oversight reviews to ensure that significant errors for official receipts were identified.
- Austin Campus employees did not always follow the IRS national procedures for reviewing receipts and sending error notices. Also, the national procedures had parts that were incomplete and unclear. The procedures did not include reviewing for all errors,

did not include all errors needing an error notice, and did not clearly explain some errors.

Austin reviews were not sufficient to help prevent or detect embezzlement.

Proper reviews of official receipts are necessary to help the IRS prevent and detect embezzlement of taxpayer cash payments. Effectively identifying and reporting errors makes employees aware that their receipts are being closely scrutinized, helping to prevent embezzlement. Also, managers' corrective actions to error notices and reports should reduce the number of unintentional receipt errors, thus making it easier to identify potential embezzlement from the smaller number of errors that do occur. The reviews by Austin most likely would not have identified a significant problem if one had been present.

A prior embezzlement involved a former Houston revenue officer.

Although we did not identify any embezzlement, a prior Houston embezzlement emphasizes the importance of identifying and reporting receipt errors. This embezzlement, investigated in 1994, involved a Houston revenue officer who embezzled approximately $8,000 involving about 15 official receipts.

Recommendations

2. The Austin Campus and National Headquarters management should conduct periodic oversight reviews to help ensure IRS procedures for reviewing official receipts, identifying receipt errors, and issuing error notices are followed.

Management's Response: The IRS stated, "We agree the inherent risk of embezzlement associated with official receipts could be minimized if IRS campuses used stronger fraud deterrence. We are proactively committed to protecting our customers' payments from embezzlement.

For example, we provided training to Submission Processing Field Office Payment Processing Managers, which focused on critical errors, losses and shortages, fraud detection, and manual guidelines. The IRS management and the Office of the Treasury Inspector General for Tax Administration conducted training sessions for Submission Processing Field Offices Payment Processing Managers in March 2001. In addition, we developed and distributed a *Submission Processing Field Office Payment Processing Program Review Guide* to the managers. This guide includes the requirement that a designee of the campus Field Director conduct program reviews at least annually. We conducted and scheduled Field Office Payment Processing Program oversight reviews of each campus. Headquarters representatives participated in these reviews, and we shared the program findings with all accountable IRS officials."

3. The IRS should revise its procedures for reviewing official receipts and sending error notices. The revised procedures should include additional receipt errors and better explanations of some errors.

Management's Response: The IRS stated, "We have posted ALERTS pertaining to Internal Revenue Manual (IRM) 3.8.45.27 to the Submission Processing Website. ALERTS clarify IRM guidelines on error detection. We issued procedural changes and improvements to IRM 3.8.45.27 as ALERTS on the Submission Processing Website. In addition, we rewrote IRM 3.8.45.27 to improve clarity and add detail. We scheduled the revised IRM for release and distribution in December 2001. We developed a formal training curriculum for Remittance Perfection technicians to be completed in December 2001."

Conclusion

The implementation of the receipt process by Houston and Austin did not adequately protect taxpayer cash payments from embezzlement. To decrease the chance for embezzlement, the IRS should take appropriate actions to ensure that only approved receipts are issued for non-cash payments and that official receipts with errors are identified and reported to management.

Appendix I

Detailed Objectives, Scope, and Methodology

Our objectives were to determine if Houston Taxpayer Assistance Center (TAC) employees gave taxpayers Internal Revenue Service (IRS)-approved receipts for non-cash payments (checks and money orders) when required and if proper accountability had been established for preparing and reviewing official receipts, Receipt for Payment of Taxes (Form 809). This included determining the types of receipts issued for non-cash payments and evaluating the Austin Campus controls over the issued official receipts. The Austin Campus provides official receipts to Houston Territory employees and reviews the issued official receipts for errors.

I. We determined the Houston Territory TAC practice for issuing receipts, when requested by taxpayers, for non-cash payments. We interviewed three TAC managers and three TAC employees. This included determining whether the TAC employees had "Proof of Delivery" stamps as prescribed by the IRS procedures. Specifically, we interviewed the Field Assistance manager for the Houston Territory, the one TAC manager who was available at the time of our work, and one former manager who had been mentioned in the allegation. In addition, we interviewed the TAC employee who made the allegation and two others randomly selected from those who were available from two different Houston offices.

II. We determined whether the Austin Campus employees identified official receipts with errors and whether error notices, Teller's Error Advice (Form 5919), had been prepared when required.

   A. We reviewed all 1,425 official receipts prepared by Houston Territory employees from October 18, 1999, to October 12, 2000, and submitted to the Austin Campus. We reviewed the receipts for errors such as: receipts issued out of sequence (including missing receipts); late cash conversion; missing cash conversion information; alterations, markovers, erasures, or carbon inconsistencies; proper void procedures; and other errors.

   B. We determined whether the Austin Campus had prepared error notices if we identified official receipts with errors.

   C. We interviewed Austin Campus managers to determine the managerial controls for reviewing official receipts and issuing error notices. We also determined if the National Headquarters analysts had reviewed the controls at the Austin Campus.

D. We analyzed the 262 official receipts that did not have cash conversion dates to determine the number that had late cash conversions and the number of days it took to convert the cash. We were able to obtain the information necessary to make these determinations for approximately 210 of the 262 receipts.

Appendix II

Major Contributors to This Report

Walter E. Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs)
Stanley C. Rinehart, Director
Richard J. Calderon, Audit Manager
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David Hartman, Auditor
Steven Stephens, Auditor

Appendix III

Report Distribution List

Commissioner N:C
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Director, Customer Assistance, Relationships and Education W:CAR
Director, Submission Processing W:CAS:SP
Director, Submission Processing, Austin W:CAS:SP:AU
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    Commissioner, Small Business/Self-Employed Division S
    Commissioner, Wage and Investment Division W

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits may be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Protection of Resources – Potential; 343 receipts with undetected errors (see page 5).

Methodology Used to Measure the Reported Benefit:
We reviewed all 1,425 official receipts prepared by Houston Territory employees from October 18, 1999, to October 12, 2000, and submitted to the Austin Campus. Our review of the receipts identified 376 errors on 354 receipts less the 11 receipts with errors detected by Austin Campus employees that could indicate potential employee embezzlement of taxpayer cash payments, accountability problems, or security problems. Austin Campus employees did not issue error notices for 97 percent (365 of 376) of the errors. Implementing our recommendations to improve controls for identifying and correcting these errors would help detect and deter embezzlement of taxpayer cash payments.

Appendix V

Identification of Errors

The table below shows the types of errors we identified that could indicate potential embezzlement of taxpayer cash payments, accountability problems, or security problems.

Each type of error (Type # 1 to 8) is explained in detail following the table. The types of errors # 1 to 8 correlate to the detailed explanations 1 to 8.

Type #	Type of Error	Number Identified by the Treasury Inspector General for Tax Administration	Number Identified by the Internal Revenue Service
1	No cash conversion date	262	0
2	Alterations, markovers, and carbon inconsistencies	46	4
3	Late cash conversions [1]	24	0
4	Too many parts/wrong parts	18	0
5	Voided with no explanation	10	0
6	Out of sequence	6	0
7	Issued by wrong employee	3	0
8	Other	7	7
	TOTAL	**376**	**11**

1. When cash is received, employees should convert the cash to a money order. Employees should enter the following information on the official receipt: (a) the name of the institution converting the cash, (b) the serial number of the money order, and (c) the date of the money order. Incomplete cash conversion information could

[1] Five of the 24 late cash conversions were identified from our analysis of the 262 receipts without cash conversion dates.

indicate employees are trying to conceal the fact they did not timely convert the cash and had temporarily used the cash for personal use.

2. Receipts should be free of alterations, markovers, and carbon inconsistencies, any of which could indicate an attempt to conceal embezzlement. For example, the receipt submitted for processing shows a lower payment amount, later date, or different taxpayer than the taxpayer's receipt. Carbon inconsistencies refer to any "critical" receipt information (Taxpayer Identification Number, taxpayer name, receipt issuance date, and money amounts) that has distinctly bolder, or possibly distinctly lighter, carbon impressions than the other items on the receipt.

3. Employees should convert the cash to a money order the day the cash is received or as soon as possible the next business day. Late cash conversion could indicate an employee temporarily used the cash for personal use and also makes the cash more vulnerable to theft by someone else.

4. Each receipt has four parts separated by carbon paper. When too many parts or the wrong parts of the receipts are submitted, proper accountability for the receipts is not maintained. This could prevent detection of employee embezzlement during required reconciliations.

5. If an error is made on a "critical" receipt item, the employee should void all four parts of the receipt, issue a new receipt, and write the reason for the void on the back of the voided receipt. This establishes proper accountability of the events that occurred. Voided receipts with no explanation could indicate that an employee started to fill out a receipt for a cash payment but then kept the cash without providing the taxpayer with a receipt.

6. Employees should issue receipts in sequential order. Out of sequence receipts could indicate employee embezzlement of a taxpayer cash payment if the employee received the payment and never submitted the payment and receipt for processing. Out of sequence receipts could also indicate employees temporarily used the cash for personal use and submitted the payment and receipt at a later date.

7. Employees are issued their own receipt book and should issue receipts only from their own receipt book. Receipts issued by the wrong employee indicate inadequate accountability and security for the receipt books. For example, an employee could use another employee's receipt and not submit the receipt and related payment for processing.

8. Other errors included receipts with incorrect or missing dates, receipts with amounts that did not agree with the actual remittance amount, and receipts with the wrong Taxpayer Identification Number. These problems could allow employees to temporarily use the money for personal use, steal a portion of the payment, or process

the payment to another taxpayer's account. It should be noted that all of these errors were identified by the Austin Campus and had error notices issued.

Appendix VI

Management's Response to the Draft Report

COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
AUG 29 2001

AUG 22 2001

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT: Draft Report #200140006–Controls Over Houston Receipts Left Taxpayer Cash Payments Vulnerable to Embezzlement

Thank you for the opportunity to respond to your recent report on IRS procedures for preparing and reviewing receipts for cash and non-cash payments. The responses below show our actions to eliminate the problems noted in your report.

Our comments on your recommendations are as follows:

IDENTITY OF RECOMMENDATION 1:
Houston Territory management should ensure that employees provide only IRS-approved receipts for non-cash payments. This should include providing Taxpayer Assistance Center (TAC) employees with "Proof of Delivery" stamps.

ASSESSMENT OF CAUSE:
Houston Territory Taxpayer Assistance management believed the procedures in place allowed employees to serve taxpayers efficiently while meeting taxpayers' needs. Additionally, Houston employees and managers were generally not aware of the "Proof of Delivery" stamp and did not have this stamp at the time of the review.

CORRECTIVE ACTIONS:
Houston Territory management ordered and received "Proof of Delivery" stamps for all TACs. In addition, the Director, Field Assistance, directed all Field Assistance offices on March 1, 2001, to immediately correct the situation and secure the required stamps. We ordered the required stamps and all offices received them by April 30, 2001.

IMPLEMENTATION DATE: Completed

RESPONSIBLE OFFICIAL:
Director, Customer Assistance, Relationships and Education
Director, Field Assistance, Wage and Investment Division

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IDENTITY OF RECOMMENDATION 2:
The Austin Campus and National Headquarters management should conduct periodic oversight reviews to help ensure IRS procedures for reviewing official receipts; identifying receipt errors, and issuing error notices are followed.

ASSESSMENT OF CAUSE:
Austin Campus employees did not always follow the IRS national procedures for reviewing receipts and sending error notices.

CORRECTIVE ACTIONS:
We agree the inherent risk of embezzlement associated with official receipts could be minimized if IRS campuses used stronger fraud deterrence. We are proactively committed to protecting our customers' payments from embezzlement.

For example, we provided training to Submission Processing Field Office Payment Processing Managers, which focused on critical errors, losses and shortages, fraud detection, and manual guidelines. The IRS management and the Office of the Treasury Inspector General for Tax Administration conducted training sessions for Submission Processing Field Offices Payment Processing Managers in March 2001. In addition, we developed and distributed a *Submission Processing Field Office Payment Processing Program Review Guide* to the managers. This guide includes the requirement that a designee of the campus Field Director conduct program reviews at least annually. We conducted and scheduled Field Office Payment Processing Program oversight reviews of each campus. Headquarters representatives participated in these reviews, and we shared the program findings with all accountable IRS officials. Our targeted completion date for this action is September 30, 2001.

IMLEMENTATION DATE: September 30, 2001

RESPONSIBLE OFFICIALS:
Director, Customer Account Services, Wage and Investment Division
Director, Submission Processing, Wage and Investment Division

IDENTITY OF RECOMMENDATION 3:
The IRS should revise its procedures for reviewing official receipts and sending error notices. The revised procedures should include additional receipt errors and better explanations of some errors.

ASSESSMENT OF CAUSE:
The national procedures for reviewing receipts and sending error notices were incomplete and unclear. The procedures did not include reviewing for all errors, did not include all errors needing an error notice, and did not clearly explain some errors.

CORRECTIVE ACTIONS:
We have posted ALERTS pertaining to IRS 3.8.45.27 to the Submission Processing Website. ALERTS clarify IRM guidelines on error detection. We issued procedural

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changes and improvements to IRM 3.8.45.27 as ALERTS on the Submission Processing Website. In addition, we rewrote IRM 3.8.45.27 to improve clarity and add detail. We scheduled the revised IRM for release and distribution in December 2001. We developed a formal training curriculum for Remittance Perfection technicians to be completed in December 2001.

IMPLEMENTATION DATE: December 31, 2001

RESPONSIBLE OFFICIALS:
Director, Customer Account Services, Wage and Investment Division
Director, Submission Processing, Wage and Investment Division

If you have any questions, please contact Ty Ayers, Director, Customer Assistance, Relationships and Education, at (404) 338-7100 or members of your staff may contact Linda Williams, Program Analyst, at (404) 338-8822.